



**Director of
Central
Intelligence**

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Indonesia: Prospects Into the Mid-1980s

Special National Intelligence Estimate

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INDONESIA: PROSPECTS INTO THE MID-1980s

Information available as of 14 September 1982 was
used in the preparation of this Estimate.

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THIS ESTIMATE IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.

THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS.

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The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and the intelligence organization of the Department of State.

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The Assistant Chief of Staff for Intelligence, Department of the Army

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KEY JUDGMENTS

The visit to Washington of Indonesia's President Soeharto on 12 and 13 October comes at a time when US-Indonesian relations are on the upswing:

- Several contentious issues involving naval ship transits, aid, and human rights, which have strained relations in recent years, have since been resolved or reduced in significance.
- Jakarta regards the current US administration as more forthcoming on aid and more sympathetic on human rights than its predecessor.

Parallel interests on issues important to both countries should help to strengthen relations between them in the next few years. These include a mutual interest in regional security, Indonesia's economic development, and the enhancement of ASEAN.

Indonesians look to the United States for military and economic aid and as the principal guarantor of the region's security. Although firmly anti-Communist, they will continue to pay homage to nonalignment and will resist the appearance of being drawn into the American orbit.

Frictions nonetheless can be expected particularly over economic issues and the evolving US-Chinese relationship:

- Soft world markets for both oil and nonoil exports have reversed Indonesia's export fortunes and spurred aggressive export promotion measures by Jakarta just when high unemployment is strengthening protectionist sentiment in the industrial countries.
- Worsening financial strains will intensify Jakarta's displeasure over the likely divergence between Indonesia and the United States on North-South issues and the constraints on US ability either to provide aid or improved access to American markets for Indonesian exports.
- Jakarta would be especially distressed by US arms sales to Beijing. Indonesia remains convinced that China poses a long-term threat to the region.

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US policy on the Middle East and Law of the Sea are other, though less contentious, areas where US and Indonesian views do not coincide:

- Indonesia will remain critical of US support for Israel and can be expected to support moderate Islamic positions, generally following Saudi Arabia's lead.
- The Indonesian Government is anxious for international validation of the archipelagic concept and can be expected to press for some form of formal US recognition of Indonesia's sovereignty over its archipelagic waters.

Southeast Asia will remain the principal focus of Indonesian foreign policy, with priority given to ASEAN initiatives. Given Soeharto's firm commitment to ASEAN unity, Jakarta is not likely to break ranks with its ASEAN partners on Kampuchea despite some misgivings about what Jakarta perceives as ASEAN's confrontational policy toward Vietnam.

We see no change in Indonesian political leadership in the offing. President Soeharto, already in power for 16 years, will be reelected in March 1983 and will continue his presidency at least until 1988, health permitting. Soeharto retains the firm support of the military, which effectively preserves internal security throughout the country.

The opposition is weak and divided:

- Political parties are little more than creatures of the regime, maintained to preserve the semblance of democracy.
- Groups that might be expected to exploit discontent, such as students, Muslim extremists, and the remnants of the banned Communist Party, are all politically passive at present.
- Minor insurgencies persist in outlying areas but offer no threat to the stability of the regime.

There is some danger that Soeharto's growing remoteness may cause a misstep in handling the tough political and economic realities his government increasingly faces. Thus far, he has shown a willingness to accept advice from his civilian technocrats, even when it threatened his political popularity or the vested interests of his military associates.

The regime nonetheless faces growing socioeconomic problems caused by burgeoning population pressures and growing urbanization on the main island, Java, which will not be resolved by transmigration to other islands. These come at a time when economic recession is weakening the government's ability to create jobs for the 2 million

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entrants to the labor force each year. The increasing number of youths migrating to Java's cities and unable to find jobs could in time provide a volatile mix that could be manipulated by antiregime forces.

As in the past, periodic outbursts of violence against local Chinese are likely to be the most visible symptom of discontent and frustration. These could spill over into actions against foreigners or even against the government if not quickly suppressed by security forces. A sustained antigovernment movement is less likely.

Indonesian Islam is not the political or even the social force it is in the Middle East, although reformist Islam is gaining popularity. The government is acutely sensitive to potential threats from the Muslims, but we do not see an Islamic fundamentalist movement emerging to threaten the regime in the next few years.

The military is the key to continuity in Indonesia's authoritarian political structure and development-oriented policies. Should Soeharto die in office or become incapacitated, the odds are that the inner military circle around him would select an acceptable successor—most likely another Javanese general—who would continue to emphasize development and stability at home and the moderate, Western-oriented foreign policy Jakarta has pursued for the past 16 years.

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DISCUSSION

President Soeharto has done more good than harm to the country.

Headline from *Indonesia Times*, April 1982, quoting Admiral Sudomo, Soeharto confidant

The National Leader

1. Indonesia's President Soeharto, a former general, came to power in the mid-1960s as a heroic figure after crushing a threatened Communist overthrow of the government. He is a stolid, reticent individual who reflects his Javanese peasant heritage. Although he did not initially seek the presidency, through his subsequent efforts that position was conferred on him in 1968, two years after he had actually begun exercising power. Over the past decade and a half Soeharto has politically evolved into a credible and powerful father-figure, skillfully eliminating potential rivals. His generally benevolent authoritarianism has brought unprecedented stability and unity to Indonesia, in sharp contrast to the mercurial and ultimately disastrous regime of his charismatic predecessor Sukarno.

2. Soeharto, 61, currently stands unchallenged for a fourth five-year term when the People's Consultative Assembly, a largely appointed body, meets in March 1983 to elect a president and a vice president. We fully expect him to lead Indonesia until 1988 unless he dies during that time or becomes incapacitated. He has minor health problems but none are life threatening or serious enough to diminish his capacity to rule confidently.

3. Soeharto's style has also evolved from the more easygoing and consultative form of his early years into one more self-assured and remote. Today his inner circle consists of old loyalists, including both active-duty officers and military retirees. All important decisions require Soeharto's personal blessing. His cabinet meetings have taken on a courtlike tone, with appropriate deferential behavior on the part of his ministers. We expect that President Soeharto's aloofness, buttressed by another election victory next March, will continue, if not intensify. His practice of listening only to trusted advisers, however, risks the danger of further insulating him from tough political or economic realities in the years ahead.

The Power Structure

4. Power emanates from Soeharto down through the senior military and technocrats who run the state bureaucracy. No outside groups (such as political parties, Chinese business interests, or religious leaders) have significant leverage with the senior bureaucracy, while the judicial and legislative branches of government serve mainly as expeditors of executive decisions. This centralization of power is reinforced culturally by a Javanese tradition of respect for hierarchical relationships and officialdom. Although centralized sche-

The government tolerates corruption as long as it is limited and does not harm anyone or national development. In eliminating corruption we cannot work like the US administration. If we did as the Americans do, there would be no officials left. As it happens, I have a nice watch and a nice ring that are very expensive; if they had come from wages, it would not have been sufficient.

General Yoga Sugomo, chief of BAKIN (State Intelligence Agency), February 1982

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matically, the state bureaucracy is not efficient; indeed, it is notorious for its redtape, indecisiveness, and corruption.

5. Within the central bureaucracy, moreover, there are competing personalities and networks that vie for the President's ear. Soeharto listens to his military commanders, his technocrats, and his inner circle. When economic development or political stability is at stake, he tends to accept advice from his civilian technocrats—even when it threatens his political popularity or the vested interests of his military associates. The most recent example of this was his approval of the 60-percent increase in domestic fuel prices in January 1982, four months before parliamentary elections.

6. On the other hand, no individual or group appears to sway Soeharto consistently. We believe the most successful confidant is Lieutenant General Sudharmono, the State Secretary who has been Soeharto's "gatekeeper" throughout his administration. [REDACTED]

7. In the political arena, Soeharto successfully uses a rather unwieldy conglomeration of "functional" groups—civil bureaucrats, labor associations, women, youth, farmers, etc.—under the acronym GOLKAR, to serve as the government political party. Backed by military support and lavishly financed by government funds, GOLKAR will remain the predominant political instrument at least as long as Soeharto is in office. Determined to maintain the system, GOLKAR has absorbed within its hierarchy many ambitious younger Indonesians who share the regime's disenchantment with Western-style political party systems.¹

GOLKAR is a kind of victim because it has had to do the dirty work of carrying out policy based on the military dominance of the government, even though it has often disagreed on that policy. . . . the future of democracy in Indonesia will depend on how effectively the armed-forces-controlled government can continue to silence its antithetical forces. . . .

A leader of GOLKAR, the government party, July 1982

¹ All political parties espouse the official state ideology, "Pancasila," which encompasses the five principles of belief in God, nationality, humanity, people's sovereignty, and social justice. Indonesians use "Pancasila" to emphasize their country's independence from foreign ideologies and their commitment to national unity.

The Military

8. The Indonesian military is the key to continuity in the authoritarian political structure and is the principal underpinning of Soeharto's regime. The "New Order" regime has been characterized by the penetration by active or retired military into key roles in the higher central bureaucracy, rationalized by the longstanding Indonesian military philosophy that the Army has a "dual function," both to protect the state and to contribute to its sociopolitical development.

9. At present the armed forces—especially the Army—exercise nationwide control through three important channels:

- A vertical command structure paralleling civil institutions down to village level.
- Area leadership councils, linking the regular military structure with civilian and police authorities at district levels.
- Military personnel appointed to civilian ministries and state enterprises considered critical to the national interest.

The armed forces have traditionally placed great importance on maintaining links to the people at all levels of society. They have recently become heavily involved in a nationwide civic action program and in efforts to expand village security by supporting local paramilitary organizations.

10. The military currently occupies 50 percent of all senior positions in the bureaucracy. The military controls key ministries pertaining to internal security, the State Secretariat, and the State Intelligence Agency (BAKIN). It also controls key enterprises such as Pertamina, the state oil company; Bulog, the agency responsible for food imports and distribution; and numerous state-owned corporations.

The soldiers' assignment to work in rural areas not only serves to firm up the collaboration between the armed forces and the people, but also to lay down the traits and foundations of mutual help, which has become the identity of Indonesian state and people.

Explanation of the Army's civic action program from Defense Minister Jusuf, July 1980

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11. Within the government apparatus, the intelligence establishment plays a major role both in domestic and foreign policy formation and in operations against any opposition to the regime. Two agencies with deliberately overlapping responsibilities and personnel perform this function. BAKIN provides intelligence related to external or internal security. KOP-KAMTIB—an organizational superstructure that permits rapid exercise of de facto martial powers in cases involving threats to internal security—has over the years enormously expanded the scope of its activities so that it now monitors virtually all the political life of the country, with powers of arrest overriding those of civil authorities. It is headed by Admiral Sudomo, another close friend and adviser of Soeharto.

The Technocrats' Economic Track Record

12. Soeharto's "New Order" was founded on the principle that political stability would be ensured chiefly by a commitment to economic development. Soeharto has allowed latitude in formulating economic policy to a group of Western-trained civilian technocrats. With some constraints—reflecting an antiforeign bias from the colonial past and a fear of economic domination by the country's Chinese minority—the technocrats adopted a generally market-oriented development strategy whose initial thrust concentrated on public investment in infrastructure and heavy industry.

Our economic development has been stimulated and helped by Western capitalism. It does not mean that we are going capitalistic. Of course we must always guard ourselves against any pull toward capitalism, which is against the spirit and letter of our Constitution.

From *Indonesia Times*, August 1982, quoting General Surono, Coordinating Minister for Social Welfare

13. The economy has made major strides from the chaotic conditions of the late Sukarno years, achieving growth rates averaging more than 7 percent annually during the 1970s. Oil exports have underpinned the economic development, supplying two-thirds of the country's foreign exchange earnings and financing about 60 percent of government outlays in recent years.

14. The government has also invested heavily in expansion of rice output, through rehabilitation and expansion of irrigation systems, and the spread of high-yield variety seeds, fertilizer, and pesticides. The effort has converted Indonesia from the world's largest rice importer in 1977-78 to near self-sufficiency in rice in 1982.

The Financial Crunch

15. The world oil glut that emerged in 1981 and the prolonged recession reversed Indonesia's export fortunes and presage a period of financial strain for the next few years. Both oil and major nonoil products were hit by softening foreign demand, which is causing a sharp downturn in 1982 (see figure 1). Indonesia's current account deteriorated from a \$5 billion surplus in 1980 to a small deficit in 1981, and we project two consecutive deficits of \$7 billion annually in 1982 and 1983 even if Jakarta slows import growth and investment in heavy industrial projects (see figure 2). Beyond 1983, recovery in export growth and continuing import restraint would gradually reduce the deficits to more manageable levels.

The Government's Response

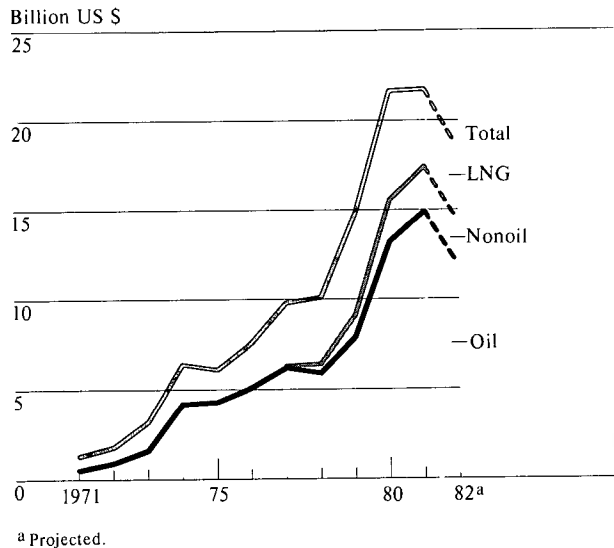
16. Jakarta can finance temporary deficits through a combination of drawing down reserves, eliciting foreign aid and investment, and acquiring foreign loans. The 1979-80 export boom boosted official foreign exchange reserves from \$2.7 billion in December 1978 to a peak of \$7.4 billion in October 1981. By March 1982, however, Jakarta had already drawn reserves down by more than \$1 billion in less than six months (see figure 3). Comments to the press by chief economic minister Widjojo in August indicated reserves have continued to fall at that pace. We believe continuation of this rate of decline would quickly run reserves down to levels Jakarta would find unacceptable and damage its international creditworthiness.

17. The government has already taken the first steps to strengthen the external accounts. Beginning in mid-1981, when export taxes on major commodities were cut, Jakarta has adopted a number of export promotion measures, including some that have met with strong disapproval from foreign trading partners and suppliers. In January 1982 the government announced measures designed to ease payment and

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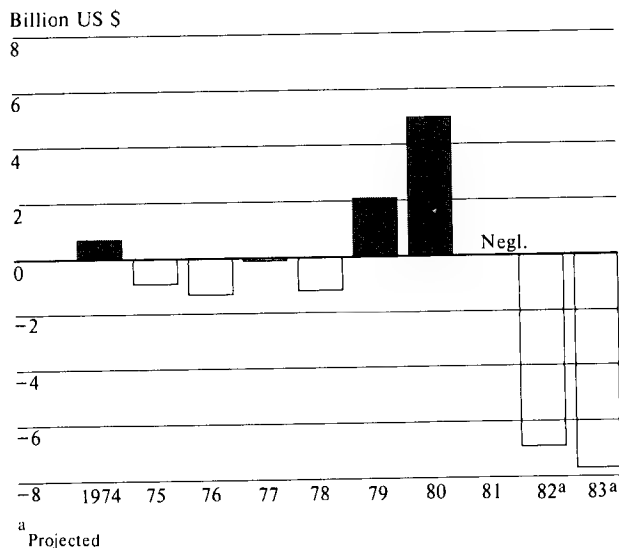
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Figure 1
Indonesia: Exports (f.o.b.)



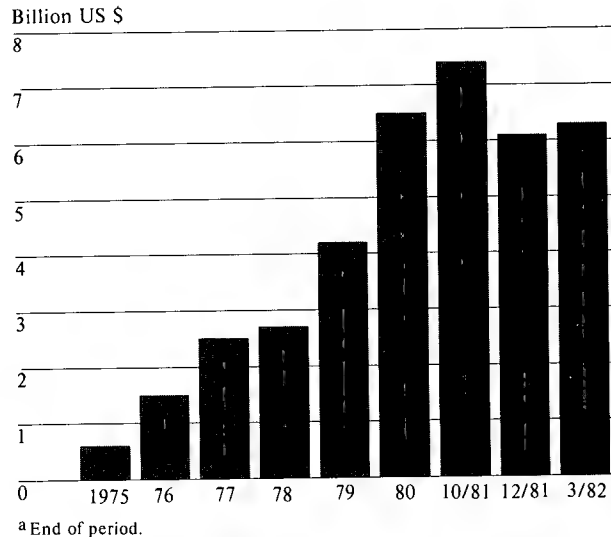
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Figure 2
Indonesia: Current Account



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Figure 3
Indonesia: Official Foreign Exchange Reserves^a



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credit terms, reduce export credit interest rates, and simplify customs and port procedures. The government has also permitted a gradual depreciation of the rupiah but denies any plans for a major devaluation.

18. The government followed up these initial moves with more controversial measures that could backfire—a counterpurchase policy and shipping restrictions. The counterpurchase scheme is a disguised barter technique similar to those of European Communist and Third World countries that pay for their imports with goods rather than cash because they lack hard currency. The policy could increase development costs as foreign suppliers raise their prices to cover the cost of disposing of Indonesian goods they otherwise would not buy.

19. The shipping restrictions aim at boosting foreign exchange earnings at the expense of foreign shipowners and the entrepot port of Singapore. The new shipping rules restricting government cargoes to Indonesian ships could affect up to 50 percent of US exports to Indonesia. The government is also trying to encourage the use of Indonesian ports by prohibiting shipowners from charging higher freight rates for

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cargoes shipped from Indonesian ports than for those from Singapore. Foreign steamship companies have complained about the measures, and the government may be forced to be more flexible than the rules suggest.

Underlying Pressures

20. The current financial strains come at a time when nearly 2 million workers are entering the labor force annually, putting intense pressure on the government to finance job creation, especially on overcrowded Java. The government has long tried to alleviate the population pressure on Java by relocating people to the outer islands, an effort that began in Dutch colonial times. The program has consistently fallen short of the government's extremely ambitious goals and has been more than offset by the natural increase in Java's population augmented by an influx of migrants from the outer islands. Java remains the most densely populated rural area in the world, with a population growing by 2 million annually. The increasing number of youths migrating to Java's cities and unable to find jobs could in time provide a volatile mix that could be manipulated by antiregime groups.

21. As in the past, anti-Chinese riots are likely to be the most visible symptom of discontent and frustration. The Indonesian tradition of letting social pressures build up until the strains result in an explosion—running amok—could well result in public outbursts at any time. The violence could also easily spill over into rioting against Japanese and other foreign interests and, if the security forces do not move quickly to suppress it, could escalate into antigovernment violence.

22. How severely the financial strains impact on the population in the next few years will depend largely on the ability of the economy to provide some means of livelihood for youths entering the labor force. Up to now, Indonesians have shared the limited number of jobs through widespread underemployment and relied on extended family systems to support the jobless. Crowds of resentful urban youths, however, will place increasing demands on the government at a time when shrinking financial resources are weakening its ability to satisfy rising expectations. If the Soeharto government does not slow its ambitious development program, however, it will run the risk of a severe financial

crisis in the next two or three years that would force austerity moves even stiffer than those already adopted and repressive measures to enforce them.

Challenges to the Regime

23. Despite the possibility of rising discontent, Soeharto has no viable opponent challenging his rule. The two opposition parties are so weak and internally divided that they show little potential for exercising any significant leverage, let alone posing an effective challenge to Soeharto in the foreseeable future. Neither party has had any representation at the cabinet level since the mid-1970s. Neither party is allowed political activity at the village level except during a brief, well-controlled preelection period. Furthermore, the most outspoken leaders of both parties have been effectively excluded from the parliament by the government's manipulation of electoral lists in last spring's campaign.

24. The PPP (Development Unity Party), an amalgam of former Muslim parties, is unable to draw on the social force of Islam to unify opposition against the government's secularist policies. The PDI (Indonesian Democracy Party), an uneasy alliance of nationalists and former Christian parties, suffers even more than the PPP from internal divisions and government manipulation. The government wants to keep both parties alive as the "loyal opposition," however, in order to maintain a semblance of democracy.

25. Groups that might be expected to capitalize on popular discontent, such as students, Muslim extremists, and the remnants of the banned Indonesian Communist Party are all dormant politically. Their lack of an attractive alternative ideology, beyond the standard complaints that the regime's development policies are inequitable, undermines their potential for

Members of Hamka (Muslim student regiment) are not now interested in political activity, since any activity against the government or against the military would mean suicide.

Student leader in Jogjakarta, Central Java, August 1982

Most students continue to be apathetic toward, weary of, and generally fed up with political activities and are currently concentrating on their studies... the government is just too strong.

West Javanese students, January 1982

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widespread public support. Although Islam in Indonesia is not the social force it is in the Middle East, reformist Islam is gaining popularity. The government remains acutely sensitive to potential threats from the Muslims.

26. The government does take seriously its ongoing struggles against minor insurgencies in the less populated outer islands, with rebellious pockets in Aceh, Kalimantan, East Timor, and Irian Jaya. Despite military operations against them, these nagging insurgencies will not go away, although none of them represents a threat to the stability of the regime. Furthermore, we do not believe that any of the small rebel groups receive significant outside financing or arms, although antigovernment groups in both East Timor and Irian Jaya have received some international sympathy.

Plots Within the Army?

27. The only group with the muscle to effectively challenge Soeharto is the Army, and it has little reason to do so. The top Army command, still run by the "Generation of 45" that fought in the revolution with Soeharto, has been extremely well rewarded by him and the system. He recently has moved to maintain this loyalty by inaugurating a new defense bill that will separate the Ministry of Defense from the active military command structure, thereby giving civilian jobs with continuing policy influence to his loyalists, virtually all of whom will be retired from active military service by the mid-1980s.

The 1945 generation is beginning to hand over the reins to the newer generation but the older leadership still has one important task to fulfill; we must continue, complete, and round out once and for all the process of reforming political life.

President Soeharto, in speech before Parliament, 16 August 1982

28. The prospect of younger officers, now in their forties and early fifties, attempting to seize the reins of power is likewise fairly remote in the next few years. These individuals, the so-called Magelang generation,²

² Graduates of the Indonesian Armed Forces Academy established in Magelang in 1957.

appear to share the aims of the older "Generation of 45" in that they are ardently anti-Communist, suspicious of political Islam, and dedicated to stability. By virtue of the new defense establishment arrangements they now have improved prospects for promotion to senior leadership positions and the benefits accompanying them. This process has already begun.

29. In sum, we see little chance that Soeharto will be forced from the scene. If, however, he should be suddenly removed from the political arena by death or incapacitation in the next two to three years, we believe two alternative scenarios could emerge:

- First, and the most likely in our opinion, is that the top Army officers clustered around Soeharto would negotiate among themselves for an acceptable successor committed to maintaining the system that has served them so well. The new ruler would be military, most likely a Javanese (the Javanese are the politically and ethnically dominant group in Indonesia), and probably would come from the clique now in the corridors of power.
- A less likely alternative would be factionalism that could produce protracted dissension, with the remote possibility that a military darkhorse harboring either more reformist or nationalistic ideology might make a successful bid for the presidency. Unless he swiftly achieved a military consensus on his legitimate right to rule, Indonesia would be likely to undergo a period of instability.

30. To our knowledge, Soeharto has not indicated his choice of a successor, thus adroitly keeping potential rivals for his position off balance and vying for his favor. Nor has he spelled out a mechanism for the orderly transfer of power in the future. Once he is elected to his fourth term in 1983, the question of an eventual successor or Soeharto's continuation in office beyond 1988 will be the topic of increasing speculation by those around him. Whoever follows Soeharto, the institutions of basic military control and authoritarian rule he has so well established are likely to be continued.

Foreign Relations: Continuing Moderation

31. Indonesia, in the next few years, is not expected to move away from the moderate foreign policy it has

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followed since the advent of the Soeharto regime in 1966. Unlike those of Sukarno, who relished confrontation and a visible international role, Soeharto's interests reflect not only the more traditional insular outlook of the Javanese but his near obsession with economic development as well. The regime's belief that development requires substantial infusions of foreign aid and investment underlies its tilt to the West. A strong anti-Communist bias reinforces this pro-Western inclination. Indonesians nonetheless maintain a strong philosophical commitment to non-alignment as a basic tenet of their foreign policy and are inclined to maintain some distance from all the major powers—the United States included.

Indonesia's commitment to nonalignment has deep roots. It remains a pillar of its foreign policy. While in practice there remains no comparison between the close range of cooperation with the United States across a wide spectrum of activities and the limited range of contacts with the Soviet Union, obeisance must be paid to the theology of nonalignment.

32. Indonesian foreign policy focuses primarily on Southeast Asia, with outside powers viewed in terms of their impact on the region. Indonesians see a continuing danger of great-power confrontation in the region but no immediate external threat to themselves or their ASEAN neighbors. There is growing concern, however, about potential threats from abroad further in the future, especially in the mineral-rich waters and outlying areas of the archipelago. Indonesia's sea-boundary dispute with Vietnam and the Soviet Union's enhanced naval presence in the region are elements of this concern, which is aggravated by the flow of Vietnamese refugees into Indonesia's northern territory and by an upsurge of piracy. Indonesia has undertaken a fairly ambitious program to enhance its

Vietnam is clearly viewed as the primary short-term threat to Indonesia, with the most likely source of confrontation or conflict being over disputed oil and gas claims in the South China Sea. . . . Indonesia has plans to develop a force oriented toward protecting or regaining offshore oil platforms from terrorists or pirates, noting that the South China Sea is a likely area for such activity.

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naval and air capabilities in the remote reaches of the archipelago—part of a general five-year program to upgrade the armed forces.³

ASEAN States

33. The Association of Southeast Asian Nations is the centerpiece of Jakarta's foreign policy. Indonesians still regard their nation as the natural leader of the region but do not try to dominate their neighbors and increasingly formulate political and economic policies in an ASEAN context. Although there has been a significant broadening of bilateral military cooperation between Indonesia and its ASEAN partners—a trend we expect to continue—Jakarta would strongly resist ASEAN's expansion into a military pact.

34. Within ASEAN, Jakarta's ties are closest with Malaysia—bonds strengthened by common language, culture, and religion. Somewhat prickly relations with Thailand and Singapore have been smoothed over in recent years in the interests of ASEAN unity. Relations with the Philippines remain the most distant—more a reflection of Manila's relative inactivity in regional affairs than of any outstanding bilateral problems—although Jakarta views the US bases in the Philippines as a welcome contribution to regional security.

35. We believe that the Indonesians, despite misgivings over aspects of ASEAN's Indochina policy, will maintain public solidarity with their ASEAN brethren. They will continue to argue within ASEAN councils, however, for a less confrontational policy toward Vietnam and to pursue their own unilateral efforts with Hanoi to find a compromise solution.

³ The armed forces have been procuring a variety of weapon systems designed primarily to build more effective deterrence and to improve the military's capability to detect and respond rapidly to any territorial challenge. Emphasis has been placed on replacing or refurbishing old, obsolescent equipment rather than drastically increasing force size.

We reject and we cannot accept the government of some country that is set up by and with the help of armed forces from outside. . . . It is hoped that Vietnam can show the attitude that this country does not endanger the security of its neighbors and does not have ambitions of territorial expansion.

President Soeharto, in budget speech to Parliament, January 1982

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China

36. The Indonesians' strong antipathy toward China is a major factor in Jakarta's thinking. Unshakably convinced that China poses the principal long-term threat to regional stability, Indonesians regard a strong and independent Vietnam as a potential buffer against Chinese expansion. There is little likelihood of change in Indonesian attitudes toward China while Soeharto is President. The military continues to have strong misgivings about the security problems that might be generated by a Chinese diplomatic presence in Indonesia. The emotional residue from the bloody upheaval in Indonesia in 1965-66 and China's lingering ties with the Communist parties in the region feed Indonesian skepticism about Chinese intentions. In Jakarta's view, regional hegemony remains China's ultimate goal.

The Soviet Union

37. Indonesia's intense preoccupation with China tends to blur its perception of a Soviet threat. Indonesians agree that the Soviet Union and Vietnam are capable of posing an immediate threat to the region, but they argue that Moscow's preoccupations in Afghanistan and Poland, along with economic problems at home, have reduced Soviet interest in Southeast Asia and will limit its commitment to Vietnam.

38. Bilateral relations with the Soviet Union are distant but correct, with a facade of cordiality deliberately maintained by Indonesia in the interest of keeping the appearance of balanced foreign policy and its nonaligned credentials. Military and economic aid from the Soviet Union, significant in Sukarno's time, are in abeyance. Direct bilateral trade is negligible. The Soviet Union nonetheless has one of the largest diplomatic missions in Jakarta, an anomaly that causes some concern for the Indonesians. Although they believe that the Soviets are both less interested and more constrained by cultural and racial barriers than are the Chinese, Indonesian complacency has been shaken by a recent spy case in Jakarta, which led to the expulsion of several Soviet officials.

Japan and Western Europe

39. Indonesia's relations with Japan are still subtly strained by memories of the wartime occupation and

contemporary perceptions of Japan as an economic predator. Japan nonetheless is a vital trading partner, investor, and source of economic and technical assistance. Japan takes more than half of Indonesia's crude oil exports and all of its liquefied natural gas (LNG). Indonesia accepts the need for improved Japanese defense capabilities around the home islands but reacts strongly against any suggestion of a Japanese military role in Southeast Asia and is highly critical of what Jakarta perceives to be American pressure to move Japan in this direction.

40. Western Europe is growing more important to Indonesia as a market, investor, and source of technology and higher education. The Europeans have become an important supplier of military equipment as Jakarta seeks to diversify its sources of weaponry. There have been strains over European quotas on imports from Indonesia, an issue likely to become increasingly contentious as Indonesia more aggressively seeks to develop its markets for nonpetroleum products at a time when the world economy is sluggish.

The Third World

41. Indonesia plays a quiet, pragmatic role in non-aligned and Islamic forums, in OPEC, and in the UN—staying firmly in the ranks of the moderates. Although a firm advocate of a new international economic order, technology transfer, and other standard Third World positions, Soeharto favors a cooperative, nonconfrontational approach to the industrialized world in seeking a better deal for the developing nations. Indonesia has strongly resisted efforts by radicals in the Nonaligned Movement, such as Cuba, to capture the movement or use it as an anti-US forum. As the world's largest Muslim country, however, Indonesia feels obliged to support moderate "Islamic" positions on international issues, generally following Saudi Arabia's lead. The Indonesians carefully avoid the inter-Islamic quarrels that plague the Middle East, but they are firmly in the Arab camp on Arab-Israeli issues.

42. Indonesia is making an effort to exercise more active diplomacy in many areas of the world. This stems more from a desire to gain support on issues important to Indonesia—East Timor being the paramount one—than from any interest in strengthening

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relations for their own sake. Jakarta is confident that its annexation of East Timor in 1976 is a fait accompli but finds the continuing international disapproval a nagging irritant. Jakarta's active diplomatic efforts to remove the issue from the UN agenda will undoubtedly remain a high priority.

Indonesia and the United States

43. Indonesia's size, location, resources, and moderate orientation all underscore its importance to US interests. It is the world's fifth most populous nation (158 million people) and sits astride strategic sea lanes between the Pacific and Indian Oceans. It generally follows policies favorable to US interests, supporting moderate positions in the Nonaligned Movement, the Islamic Conference, OPEC, and the UN. Its participation in ASEAN enhances regional stability. And it is important as a trading partner (approximately \$6 billion annually in two-way trade), the site of large US investments, and the supplier of 7 percent of US oil imports, more than 40 percent of US natural rubber imports, and significant quantities of coffee, tin, and spices.

44. Indonesians regard the United States with some ambivalence. There is popular admiration for the American democratic system but criticism of what Indonesians perceive as an overly materialistic and individualist society. The United States is viewed as a major source of aid and investment and as the principal guarantor of the region's security. At the same time, there is strong resistance to being drawn into the American orbit, underlying resentment over Indonesia's dependence on foreign largess and protection, and a visceral mistrust of all major powers. This mistrust stems from Indonesia's colonial heritage and subsequent experience with foreign involvement in subver-

sive actions against its government. Indonesian leaders are sensitive to real or imagined slights and to American actions that seem to ignore their interests.

45. US-Indonesian relations have improved in recent years. Several issues that previously strained relations have been resolved or have receded in importance:

- One such issue was notification of US warship transits. The Indonesians now appear to be satisfied with information they currently receive on US and Soviet activities in the region, which mention transits of US naval vessels.
- An increase in military aid and holding the line on economic aid apparently have helped to assuage Indonesian impressions of neglect and ill will toward Soeharto's regime, impressions also eased by the invitation for him to visit Washington. Frictions could reemerge in the future if Jakarta again perceives the US Government as unresponsive to its needs, especially as it turns increasing attention to military force modernization.
- East Timor and human rights are less heated if still nagging issues. Indonesians continue to grumble about criticism in the American press and the US Congress but perceive a more understanding attitude in the current US administration, which has been encouraged by Jakarta's release of most of the political prisoners held since 1965.

46. Contentious issues remain, however, which undoubtedly will cause friction in the next few years. The two principal areas of likely contention concern international economic policy and US-Chinese relations.

Economic Policy

47. Indonesia is generally disappointed with Washington's international economic policies and would like to see a more generous approach to Third World problems. Soeharto is a firm advocate of the new international economic order, although Indonesia continues to take a nonconfrontational approach to the North-South dialogue.

48. The recession and concurrent oil glut are accentuating frictions between the United States and Indo-

There is even greater sensitivity than I remember some years back to even the slightest US act or statement which might be interpreted as indicating we do not appreciate Indonesia's nonaligned status.

We will never be dictated to by the United States in our foreign policy.

Foreign Minister Mochtar to university faculty, December 1981

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nesia. Tin, coffee, and textile problems currently head the list of Jakarta's complaints over commodity issues. The continuing sale of tin stocks by the United States and US ceilings on imports of Indonesian textiles are sure to become more contentious.

relationship. The Indonesians are critical of US policy for not dealing with the Palestinian problem and for not putting more pressure on the Israelis for a comprehensive settlement.

Law of the Sea

52. Indonesia likewise is very disappointed by Washington's decision not to sign the Law of the Sea convention, which Jakarta values primarily as an official international validation of the archipelagic concept.⁴ The Indonesian Government is particularly anxious for formal US recognition of Indonesia's sovereignty over its archipelagic waters, which include more than 3 million square kilometers of previously open seas. Jakarta can be expected to continue to press at all levels for US agreement on this issue.

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49. Likewise US disagreement with Jakarta over its new counterpurchase policy and shipping restrictions will not easily be resolved. The Indonesians have chosen what they consider the best of several unpalatable choices—that is, export promotion and fiscal austerity. Indonesia's flexibility in implementing its policies clearly will be keyed to improvements in its external accounts.

US-Chinese Relations

50. The Indonesians will continue to watch the evolving US-Chinese relationship with some apprehension and would be especially distressed by American arms sales to China. Even China's economic development—with help from the United States and Japan—leaves Indonesians uneasy as it portends for them a stronger and potentially more assertive nation.

It now appears that the United States prefers its relationship with China over its relationship with ASEAN. US policy is directed only against the Russians and, because of that, we do not really trust the United States.

Foreign Minister Mochtar to university faculty, December 1981

Convergent Interests

53. Fortunately, there are significant areas where US and Indonesian interests converge—the security and development of the region, the continuing development of Indonesia and its resources, and the strengthening of ASEAN. Indonesians welcome a strong US military presence in the region, although they remain uncertain as to the extent and depth of the US commitment. For its part, Jakarta's moderate and responsible role in ASEAN contributes to the stability of the region. The regime's emphasis on economic development and reversal of the provocative foreign policies of the Sukarno era contribute to the "regional resilience" Jakarta advocates as the best hedge against unwanted foreign intrusion. Jakarta often helps soften radical attacks on the United States in international forums.

54. Both countries benefit from American investment in Indonesia. US oil companies, which account for more than 80 percent of Indonesia's oil output, have highly profitable operations in Indonesia. Oil exports are Indonesia's most lucrative source of foreign exchange earnings, and the oil industry provides sub-

Middle East

51. The Middle East will be another area of continuing US-Indonesian divergence of view but one with less impact than other problems on the bilateral

⁴ The archipelagic concept holds that states made up of a group or groups of closely related islands and interconnecting waters would have sovereignty over a sea area enclosed by straight lines drawn between the outermost points of the outermost islands. Ships and aircraft of other states would enjoy the right of passage through and over sea lanes designated by the archipelagic state.

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stantial benefits as well through the transfer of technology. US investment includes construction firms and suppliers of construction and transportation equipment, chemicals, and foodstuffs. These firms not only have developed profitable markets in Indonesia, but have made significant contributions to Indonesia's development program.

55. Indonesia continues to cooperate in efforts to resettle the Indochinese refugees. Although Jakarta will not permit the permanent resettlement of Indochinese refugees in Indonesia, it maintains a humane first-asylum policy and provides one of the region's two processing centers for preparing refugees for resettlement in third countries. Jakarta is nonetheless concerned that the US commitment to refugee resettlement will flag, and leave Indonesia with a residue of unsettled cases.

Continuity Rather Than Change

56. Although Jakarta is likely to continue to assert its views more vigorously than in the earlier years of the Soeharto regime, Indonesian foreign policy is not likely to change significantly in the next few years. Even if Soeharto should pass from the scene, the Indonesian military's strong anti-Communist orientation and commitment to development argue for a continuance of the moderate, Western-oriented foreign policy Jakarta has pursued for the past 16 years. Indonesian insularity is gradually being reduced by the growing network of bonds with the outside world—the most prominent being those within ASEAN—and the growing propensity to think in a regional context should curb any return to a Sukarno-type policy of confrontation. There nevertheless will continue to be areas where US and Indonesian views do not coincide, and Jakarta may well become more prickly to deal with as economic problems worsen.

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